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Warren D. Hannah

Director - Federal Regulatory Relations Local Telecommunications (Vision **EX PARTE**

April 26, 1996

Mr. William F. Caton Acting Secretary Federal Communications Commission 1919 M Street, N.W. Room 222 Washington, D.C. 20554 APR 2 6 1996
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

RE: In the Matter of Federal-State Joint Board on Universal Service - CC

Docket No. 96-45

Dear Mr. Caton:

DOCKET FILE COPY ORIGINAL

Today, representatives of Sprint Corporation met with The Honorable Ken McClure of the Missouri Public Service Commission and Ms. Martha S. Hogerty, Public Counsel for the State of Missouri, both who are members of the Federal-State Joint Board established in the above referenced proceeding. Also attending the meeting were Mr. Michael Dandino and Ms. Barbara Meisenheimer of the Office of Public Counsel for the State of Missouri and Mr. Paul Pederson of the Missouri Public Service Commission. Representing Sprint Corporation were Messrs. Jim Sichter, Jim Dunbar, Mark Askins, Doug Galloway and Ms. Rachel Lipman.

Sprint's proposals, filed on April 12, 1996, in the above referenced docket were discussed during the meeting. The attached information was used during the meeting. We request that this information be made a part of the record in this matter. Two copies of this letter, in accordance with Section 1.1206(a)(1) of the Commission's Rules and Regulations, are provided for this purpose.

Please call on the above telephone number if there are any questions.

Sincerely,

Warren D. Hannah

Attachment

No. of Copies rec'd O+ Z List ABCDE

DISTRIBUTION LIST:

Members of the Federal-State Joint Board

Mr. Michael Dandino, Office of Public Counsel, State of Missouri

Ms. Barbara Meisenheimer, Office of Public Counsel, State of Missouri

Mr. Paul Pederson, Missouri Public Service Commission

Ms. Deborah Dupont, FCC, Washington, D.C.

Mr. Jim Sichter, Sprint, Westwood, Kansas

Mr. Jim Dunbar, Sprint, Westwood, Kansas

Mr. Mark Askins, Sprint, Westwood, Kansas

Mr. Rachel Lipman, Sprint, Kansas City, Missouri

Mr. Doug Galloway, Sprint, Jefferson City, Missouri

Mr. Jay Keithley, Sprint, Washington, D.C.

SPRINT COMPREHENSIVE

PLAN FOR UNIVERSAL

SERVICE SUPPORT



TELECOMMUNICATIONS ACT OF 1996

Goals and Principles of Universal Service Support Mechanisms (Section 254(b))

- ① QUALITY AND RATES Quality services should be available at just, reasonable, and affordable rates.
- ② ACCESS TO ADVANCED SERVICES Access to advanced telecommunications and information services should be provided in all regions of the nation.
- 3 ACCESS IN RURAL AND HIGH COST AREAS Consumers in all regions of the nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.
- EQUITABLE AND NONDISCRIMINATORY CONTRIBUTIONS All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.
- 5 SPECIFIC AND PREDICTABLE SUPPORT MECHANISMS There should be specific, predictable and sufficient federal and state mechanisms to preserve and advance universal service.
- ACCESS TO ADVANCED TELECOMMUNICATIONS SERVICES FOR SCHOOLS, HEALTH CARE, AND LIBRARIES Elementary and secondary schools and classrooms, health care providers, and libraries should have access to advanced telecommunications services as described in subsection (h).
- ② ADDITIONAL PRINCIPLES Such other principles as the Joint Board and the Commission determine are necessary and appropriate for the protection of the public interest, convenience, and necessity and are consistent with this Act.

ELECOMMUNICATIONS ACT OF 1996

xisting Universal Service Support Mechanisms are Inconsistent with the Telecom Act, and are Incompatible with, and Unsustainable in, a Competitive Market Place

- Problems with Embedding Subsidies in LEC Prices
 - Neither explicit nor targeted
 - Artificially low rates (for the subsidized services) are a barrier to competitive entry
 - Artificially high rates (for the services providing the subsidy)...
 - Provide incorrect price signals to potential entrants
 - Are unsustainable



ISTING SUBSIDY SYSTEM

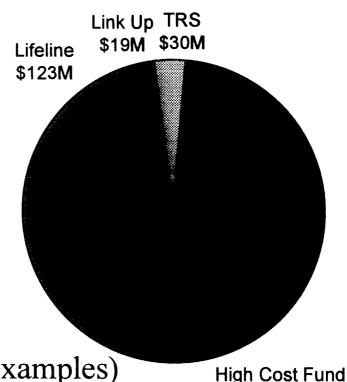
High Cost Fund \$725M

Explicit Subsidies

Lifeline \$123M

Link up \$ 19M

TRS \$30M



■ Implicit Interstate Subsidies (examples)

CCL \$3.2B

RIC \$2.6B



\$725M

RINT UNIVERSAL SERVICE PLAN

Principles

Services Eligible for Subsidies

- Determination of Subsidy
- Costing Standard
- Eligibility Criteria for Receiving the Subsidy
- Implementation
- Funding
- Administration of Funds



RINT PLAN INT UNIVERSAL SERVICE PLAN -- PRINCIPLES

Competitive Neutrality

- Should Not Impair Competition
- Subsidy Funding Should be Portable
- Specific (Targeted)
- Predictable
- Fully Replace Current Internal (Implicit) Subsidy Flows, as well as Existing Explicit Subsidy Funding



RINT PLAN RVICES ELIGIBLE FOR SUBSIDIES

Residential Services Only

Initial Service Definition

- Local Dial Tone and Ability to Make Local Calls
- Access to Chosen Long Distance Carrier
- Access to Emergency Services
- Single Party Service
- Touch Tone
- Annual Local Directory
- Directory Assistance



RINT PLAN TERMINATION OF SUBSIDY

Income Related Subsidies

- Lifeline, Linkup, and Other Explicit Subsidy Mechanisms to Support Low Income Subscribers Would Continue
- High Cost Area Subsidies
 - Available to Subsidize Basic Residential Service in Areas Where the Costs of Providing Service Exceed National and State Standard for "Affordable" Rate

INT PLAN TING STANDARD FOR DETERMINING HIGH COST AS

The Benchmark Cost Model Should be the Basis for Measuring the Costs of Providing Services for USF Purposes.

- The BCM is a Reasonable Proxy for the Economic Costs of Serving a Particular Area
- Advantages of the BCM
 - Based on Objective, Verifiable, Public Data and Accepted Network Engineering Standards
 - Cost Results not Distorted by Historic Accounting and Depreciation Policies
 - Does Not Require Arbitrary Allocations or Dissagregations of Existing Investment to Smaller Geographic Units
 - Avoids Controversy Over Whether Embedded Costs Represent "Efficient" or "Inefficient" Management



RINT PLAN TING STANDARD FOR DETERMINING HIGH COST TAS

Advantages of the BCM (continued)

Competitively Neutral

- Subsidy funding (per subscriber) will be the Same for all Service Providers
- The BCM is a Proxy for the Costs that <u>Any Efficient Provider</u> would Incur in Providing Service to a Particular Area
 - Subsidy Amount Not biased by an Incumbent's Embedded Costs
 - Provides Incentive for Competitive Entry into High Cost Areas
 - Provides Incentive for Efficiency
 - Provides Incentive for Innovation



RINT PLAN TING STANDARD FOR DETERMINING HIGH COST AS

dvantages of the BCM (continued)

Disaggregation of Costs By Census Block Group (CBG)

- More Precisely Identifies Truly High Cost Areas
- Avoids Competitive distortions Inherent in Using Higher Levels of Aggregation (e.g. exchange or study area) for USF Purposes
 - Basing Subsidies on Averaged Costs will not Provide New Entrants Sufficient Incentives to Serve Those Areas Where Costs Exceed the Average



RINT PLAN TERMINATION OF THE AMOUNT OF BSIDY

The Amount of Subsidy Provided for a CBG Would be the Difference Between

- The National Benchmark Price for Basic Residential Service (i.e., the maximum rate determined to be "reasonable" and "affordable"), and the
- BCM-Calculated Cost For that CBG
- The National Benchmark Price Should be Set, at Least Initially, at the National Average Rate for Basic Residential Service in <u>Urban</u> areas, Including the Existing, and Future Increases in, the Subscriber Line Charge.
- State USF Plans Could Use the Same Methodology to the Extent State Repricing Does Not Resolve All State-Specific Subsidies



RINT PLAN FERMINATION OF THE AMOUNT OF SIDY: EXAMPLE

Assume:

Federal Subsidy

1.	BCM Cost	\$30
2.	FCC Benchmark Price	\$20
3.	Federal Subsidy (L1-L2)	\$10
	State Subsidy	
4.	State R1 Price	\$15
5.	State Subsidy (L2-L4)	\$5



RINT PLAN FUND SIZE AT ALTERNATIVE NATIONAL CHMARK PRICE LEVELS

Summary Model Results
National Total (excluding Alaska)
(\$) (Billions)

	Annual Cost Factor #1	Annual Cost Factor #2
Annual Benchmark Cost	\$ 2 5 ,3 7 7	\$ 1 8 ,4 0 2
A ggregate Support		
at \$ 2 0 at \$ 3 0 at \$ 4 0	\$ 8,082 \$ 4,916 \$ 3,208	\$ 3,977 \$ 2,203 \$ 1,372
Average Monthly Cost	\$ 23.04	\$ 16.71



RINT PLAN GIBILITY CRITERIA FOR RECEIVING E FUNDING

USF Funding Will be Available to Both Incumbent LECs and New Entrants

To Qualify for USF Funding, an ETC (Eligible Telecommunications Carrier) Must:

- Be Willing to Serve the Entire Service Area
- Offer All of the Services that are Supported by the Fund
- Use Their Own Facilities or a Combination of Owned Facilities and Resale of Another Carrier's Facilities
- An ETC Will Receive Support Only Where It Provides Service Either Over Its Own Facilities or Over Resold Facilities For Which It Pays Cost-Based Rates
- USF Support Should be Portable (When Subscribers Change Their Local Service Provider, the Subsidy Payment Should Then Go to the New Service Provider)

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RINT PLAN PLEMENTATION

The Expansion of USF Support Should

- Replace Existing Implicit and Explicit Subsidies
- Be Revenue Neutral to the Incumbent LEC at Time of Implementation

■ Implementation Steps

- Each Incumbent LEC Would Quantify its Net Change in USF Support (i.e., USF Support Under the New Plan Less USF Support it Received Under the Existing Plan)
- The Incremental USF Funding Would Flow Through, Dollar for Dollar, in Reductions in Embedded Subsidies; e.g.,
 - CCLC
 - Transport RIC



RINT PLAN INDING

All Providers of Telecommunications Services Will Pay Into the Fund Based on Revenues, Net of Payments to Intermediaries

- Payments Will Be Equitable and Nondiscriminatory Among Carriers
- State Funding to Be Provided by All Carriers Providing Intrastate Services



RINT PLAN MINISTRATION OF FUND

A Neutral Administrator Will Be Appointed by the FCC and PUC to:

- Annually Update the Fund
- Collect Funding Dollars
- Distribute Funds to Eligible Telecommunications
 Carriers (ETC)



RINT PLAN IND ADMINISTRATOR DUTIES

Maintain Database by CBG Containing;

- -Households Eligible for Support
- -Support Available Per Household
- -Qualification of ETCs
- Households Served by ETCs



RINT PLAN ZE OF FUND

Funding Administrator Will Develop Funding

- Determine Quantity of Qualifying Access Lines by CBG
- Sum CBGs to Determine Annual Amount Needed
- Assessments will be Made to All Providers of Telecommunication Services Based on Revenues, Net of Payments to Intermediaries

